100TH CONGRESS
1st Session

SENATE

REPORT
100–14

OVERSIGHT ACTIVITIES

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-NINTH CONGRESS

A REPORT

FILED PURSUANT TO PARAGRAPH 8(b) OF RULE XXVI OF THE STANDING RULES OF THE SENATE

MARCH 18, 1987.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE

67-192 O

WASHINGTON : 1987

S243-2.

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, *Chairman*

ALAN CRANSTON, California
DONALD W. RIEGLE, JR., Michigan
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee
TERRY SANFORD, North Carolina
RICHARD SHELBY, Alabama
ROBERT GRAHAM, Florida

JAKE GARN, Utah
JOHN HEINZ, Pennsylvania
WILLIAM L. ARMSTRONG, Colorado
ALFONSE M. D'AMATO, New York
CHIC HECHT, Nevada
PHIL GRAMM, Texas
CHRISTOPHER S. BOND, Missouri
JOHN H. CHAFEE, Rhode Island

KENNETH MCLEAN, *Staff Director*
M. DANNY WALL, *Republican Staff Director*
EDWARD M. MALAN, *Editor*

LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC, March 18, 1987.

Hon. GEORGE BUSH,
President of the U.S. Senate,
Washington, DC.

DEAR MR. PRESIDENT: Paragraph 8(b) of Rule XXVI of the Standing Rules of the Senate requires each standing committee of the Senate (with the exception of the Committees on Appropriations and the Budget) to file a report of its oversight activities during the 99th Congress not later than March 31, 1987.

Pursuant to that obligation, I am herewith submitting to you a report of those oversight activities of the Committee on Banking, Housing, and Urban Affairs during the 99th Congress.

Sincerely yours,

WILLIAM PROXMIRE, *Chairman.*

JURISDICTION OF THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

DURING THE 99TH CONGRESS

[Extract from Rule XXV of the Standing Rules of the U.S. Senate]

STANDING COMMITTEES

1. The following standing committees shall be appointed at the commencement of each Congress, and shall continue and have the power to act until their successors are appointed, with leave to report by bill or otherwise on matters within their respective jurisdictions:

* * * * * * *

(d)(1) Committee on Banking, Housing, and Urban Affairs, to which committee shall be referred all proposed legislation, messages, petitions, memorials, and other matters relating to the following subjects:

1. Banks, banking, and financial institutions.
2. Control of prices of commodities, rents, and services.
3. Deposit insurance.
4. Economic stabilization and defense production.
5. Export and foreign trade promotion.
6. Export controls.
7. Federal monetary policy, including Federal Reserve System.
8. Financial aid to commerce and industry.
9. Issuance and redemption of notes.
10. Money and credit, including currency and coinage.
11. Nursing home construction.
12. Public and private housing (including veterans' housing).
13. Renegotiation of Government contracts.
14. Urban development and urban mass transit.

(2) Such committee shall also study and review, on a comprehensive basis, matters relating to international economic policy as it affects United States monetary affairs, credit, and financial institutions; economic growth, urban affairs, and credit, and report thereon from time to time.

CONTENTS

	Page
Letter of transmittal	III
Jurisdiction of the committee	V

OVERSIGHT ACTIVITIES

Full committee:	
Oversight Activities of the Export-Import Bank	1
Conduct of Monetary Policy	2
Comprehensive Reform in the Financial Services Industry, Parts I-II-III	3
Deposit Insurance Reform and Related Supervisory Issues, Parts I-II	3
The Internationalization of Capital Markets	3
Farm Credit Administration Act Amendments of 1985	4
Effect of Exchange Rate Volatility and the Debt Problems of Developing Countries on U.S. Trade Competitiveness	4
Subcommittee on Housing and Urban Affairs:	
Adjustable Rate Mortgages	5
Reauthorization of the Urban Mass Transportation Act	5
Liability Insurance and Tort Reform	6
Fair Housing Initiatives Program	6
Community Development Block Grant Program in the City of Philadelphia	7
Subcommittee on International Finance and Monetary Policy:	
Semiconductor Trade and Japanese Targeting	8
Exchange Rate Misalignment	8
Review of the International Lending Supervision Act of 1983	8
Subcommittee on Financial Institutions and Consumer Affairs:	
Adjustable Rate Mortgages	10
Brokered Deposits, Parts I-II	10
Mobile Home Usury Preemptions	11
Consumer Benefits Associated With the Changing Financial Services Environment	11
Subcommittee on Securities:	
Impact of Corporate Takeovers	13

100TH CONGRESS
1st Session

SENATE

REPORT
100-14

OVERSIGHT ACTIVITIES

MARCH 18, 1987.—Ordered to be printed

Mr. GARN, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

OVERSIGHT ACTIVITIES

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Summary of Activities Originating in the Committee

EXPORT-IMPORT BANK

At the start of the 99th Congress the Senate Banking Committee held its first hearing on February 5, 1985, to focus on the problem of U.S. exports lost as a result of the officially subsidized export credits provided by our major foreign competitors. Despite the disadvantages of an overvalued dollar, American exporters could often successfully sell their products and services abroad were it not for the fact that their foreign competitor is offering a financing package subsidized by his or her government at interest rates and terms more favorable than what our exporter can obtain commercially. In major capital purchases this credit subsidy can substantially outweigh considerations of quality, price, and delivery.

When a U.S. exporter faces that kind of competition, he usually turns to the Eximbank, which is specifically required by Congress to provide fully competitive financing. Yet despite that mandate and despite the record—and growing—trade deficit, the Office of Management and Budget had proposed that Eximbank abandon the direct lending program.

Where would the American exporter obtain financing with the Eximbank out, as proposed, of the direct lending business? There would be a strong incentive to go overseas where competitive financing is available. What this would mean is the export not of American products and services but of American jobs and growth.

67-192 O

The shortcomings in our Export-Import Bank program highlighted during the hearing played a major role in the Committee's legislative deliberations on the renewal of the Export-Import Bank Act. This legislation was approved and signed by the President on October 15, 1986, and became Public Law 99-472.

CONDUCT OF MONETARY POLICY, FIRST AND SECOND SESSIONS

The Senate Banking Committee held four oversight hearings on the conduct of monetary policy during the first and second sessions of the 99th Congress. Background for each hearing was provided by a Monetary Policy Report from the Board of Governors of the Federal Reserve System. The Board is required to send these reports to the Congress each February and July under the "Full Employment and Balanced Growth Act of 1978."

The Chairman of the Board of Governors, Paul Volcker, appeared before the Banking Committee at each of the semiannual hearings for extensive questioning on the recent conduct of monetary policy, the FED's targets for future monetary growth, and the compatibility of monetary policy with the Nation's overall economic objectives. The Committee also received statements from other Government officials and outside economists.

Oversight hearings held by the Committee were:

Federal Reserve's First Monetary Policy Report for 1985, February 5, 1985 (99-31).

Federal Reserve's Second Monetary Policy Report for 1985, July 18, 1985 (99-181).

Federal Reserve's First Monetary Policy Report for 1986, February 20, 1986 (99-551).

Federal Reserve's Second Monetary Policy Report for 1986, July 23, 1986 (99-803).

After each of the hearings, the Committee summarized its findings in a report to the full Senate, as is also required by the "Full Employment and Balanced Growth Act." During the 99th Congress, these reports focused on the reasons for and implications of the rapid money growth that began in late 1984 and the unprecedented decline in monetary velocity that accompanied rapid monetary growth.

The Banking Committee's reports to the Senate also focused on the linkages between money growth and real economic growth, unemployment, inflation, and the value of the dollar. In general, the Committee supported the FED's monetary policy actions during 1985 and 1986, finding those actions compatible with continued economic growth. The Committee did express concern over the long-run consequences of continued rapid monetary growth and of excessively large Federal budget deficits. The Committee also expressed concern over financial market instability related to uncertainty over changes in the direction of FED policy.

Reports by the Committee to the full Senate were:

First Monetary Policy Report for 1985, Senate Report 99-22, April 2, 1985.

Second Monetary Policy Report for 1985, Senate Report 99-149, October 4, 1985.

First Monetary Policy Report for 1986, Senate Report 99-289, April 28, 1986.

Second Monetary Policy Report for 1986, Senate Report 99-490, September 26, 1986.

COMPREHENSIVE REFORM IN THE FINANCIAL SERVICES INDUSTRY AND DEPOSIT INSURANCE REFORM AND RELATED SUPERVISORY ISSUES

With the revolutionary changes in the financial services industry affecting the needs of the retail customer, the Senate Banking Committee, under the leadership of Senator Jake Garn (R.-Utah) continued its efforts to pass a major banking bill.

When the 99th Congress convened on January 3, 1985, the Committee embarked upon 9 days of oversight hearings on Comprehensive Reform in the Financial Services Industry beginning May 8, 14, 15, 22 and June 11, 13, 18, 19, 20, 1985. An additional 8 days of oversight hearings on the subject of Deposit Insurance Reform and Related Supervisory Issues were held July 23, 25, 31, September 10, 11, 1985, July 22; March 4, 13, 1986.

These hearings were very well attended by the members of the Committee, and of great interest to the public in general, set in motion events that eventually led to a reported bill S. 2752. This bill extends titles I and II of the Garn-St Germain Depository Institutions Act of 1982, to provide for emergency acquisitions of banks in danger of closing, to recapitalize the Federal Savings and Loan Insurance Corporation, and for other purposes.

With time running out, and a packed legislative calender, the Senate leadership was unable to bring the legislation up for floor action due to the concern over lengthy debate and amendments on the issue.

THE INTERNATIONALIZATION OF CAPITAL MARKETS

On February 26 and 27, the full Committee held hearings on the internationalization of capital markets. The 2 days of hearings will provide an overview to Committee members from private sector participants of the nature and magnitude of the trend toward internationalization. The hearings addressed some of the resulting benefits and costs for U.S. participants. They were not intended to explore in detail all of the many issues involved in this broad area.

The Committee or various subcommittees may decide later to hold additional hearings to focus more specifically on some of the issues that arise.

Among the issues the hearings addressed are the implications of the increasing size of the Eurobond market which last year was larger than the United States corporate debt market; the internationalization of the equities and mortgage finance markets; the international role and competitiveness of United States financial institutions; and the effect of liberalized regulatory schemes in other countries, particularly in the United Kingdom.

The testimony in these hearings showed that internationalization is accelerating and affecting virtually every aspect of the banking and securities industry. These hearings, which were well attended by the members of the Committee, were of great interest to the public in general. It is, therefore, important that the Committee stay abreast of the developments in these markets and recognize their impact on any legislation this Committee considers.

FARM CREDIT ADMINISTRATION ACT AMENDMENTS OF 1985

On December 23, 1985, Congress passed legislation restructuring the Farm Credit System, H.R. 2100 which became Public Law 99–198. Then on March 6 and 11, 1986, hearings were held for amendments to the act. With a distinguished panel of witnesses including Members of Congress, the hearings helped to determine what action should be taken to: one, ensure an adequate delivery of credit in the farm community; two, to provide protection in the Federal Deposit Insurance Fund; and three, to ensure that when a solution for agricultural banks and farmers is considered, it is considered in conjunction with the Nation's Federal budget deficit so that the program is realistic and cost effective.

EFFECT OF EXCHANGE RATE VOLATILITY AND THE DEBT PROBLEMS OF DEVELOPING COUNTRIES ON U.S. TRADE COMPETITIVENESS

On May 14, 1986, the Committee began a series of hearings on the impact of recent dollar misalignment and the debt problems of major developing countries on the U.S. economy, U.S. financial institutions, and the U.S. international competitive position.

Dollars misalignment and the less developed countries [LDC] debt crisis have cost the United States billions of dollars in exports and they have done long-term harm to the export capability of many of our export industries. Merchandise trade deficits continued to climb last year and a significant turnaround of our trade accounts is not likely to come quickly.

The issue is an area of vital interest to the Committee, given the Senate's review of major trade legislation during the year. To avoid harmful, protectionist legislation, the Committee sought to find a way to address productively our trade imbalance and the economic instability caused by current exchange rate fluctuations and the LDC debt problem.

The Committee invited Malcolm Baldrige, Secretary of Commerce, to discuss prospects for U.S. trade in light of developments in the area of exchange rates and LDC debt. Mr. Baldrige, when testifying, expressed strong opposition to legislation that would invite retaliation, which would hurt our exports and the millions of jobs that depend on our exports.

The hearing served to assist members in discovering what lessons had been learned from recent dollar misalignment, and how those lessons could be applied to improve the health of the Nation's financial system in the future.

Oversight Activities Originating in the Subcommittee on Housing and Urban Affairs

ADJUSTABLE RATE MORTGAGES

On April 19, 1985, a joint hearing of the Subcommittee on Housing and Urban Affairs and the Subcommittee on Financial Institutions and Consumer Affairs, was held for the purpose of examining the role of adjustable rate mortgages in the housing market.

There is no legislation now pending, however, proposals on that subject have a way of arising quickly. It is appropriate that the committee take this opportunity to assure itself that it has adequately aired the issues surrounding adjustable rate mortgages [ARM's]. There can be no doubt that the ability of home lenders to offer ARM's has been and will continue to be an absolutely vital element in permitting the industry to better match the terms of its assets and liabilities.

The availability of ARM's has permitted many home buyers to qualify for home loans, when they would have been shut out of the market, when only conventional instruments were available. But the development of ARM's has not been without problems. Loans offered at initial rates far below market rates often stunned borrowers not only with payment shock when the initial favorable rates expire but also with the unhappy realization that in some cases they had paid on a loan for 1 year, only to discover that the outstanding principal is larger than what they had begun.

The making of such teaser loans is not only a classic example of misleading the consumers but also presents the industry with the potential for high default rates in future years.

Fortunately, there appears to have been some progress in eliminating what appears to be a gross abuse in the marketplace. Regulatory agencies and private trade associations conducted a consumer education campaign culminating in the recent consumer handbook, for which they are to be complimented.

REAUTHORIZATION OF THE URBAN MASS TRANSPORTATION ACT

With the Emergency Deficit Reduction Act (Gramm-Rudman-Hollings), the Committee was forced to reassess all Federal programs to determine if or how it could continue to provide necessary assistance at the least possible cost.

The Subcommittee on Housing and Urban Affairs held 2 days of hearings on April 15 and 16, 1986. The administration has targeted the Federal Mass Transit Program for significant reductions and program realignment. A cut would devastate transit systems around the country. It would also mean the end of service for a

great many systems, major fare increases, and a pattern of deteriorating service for those that were somehow able to remain open.

Due to the heavy congressional floor schedule at the end of the 99th Congress no further action was taken.

LIABILITY INSURANCE AND TORT REFORM

In the second session of the 99th Congress the Subcommittee on Housing and Urban Affairs held a hearing on May 15, 1986, on the current crisis in the availability and affordability of liability insurance affecting all areas of society, from the housing industry, local government, and transit systems.

With the increasing rates, some as much as 10 times the previous year, State and local governments are unable to conduct business and provide essential services. Literally everyone and everything, doctors, lawyers, engineers, dentists, hospitals, day-care centers, and businesses, large and small, are being hurt by the rapidly rising rates, along with the consumers. These increases are of course, passed on to them.

The hearing record compiled from the hearing of witnesses on problems of the affordability of liability insurance will assist in crafting appropriate legislation to get a grip on the crisis.

Senator Mitch McConnell (D.-Ky.) introduced S. 2440 and S. 2441, which deal with tort claims and contract claims against the Federal Government.

Clearly action must be taken to address this crisis but, due to the heavy congressional floor action, no further action was taken in the 99th Congress.

FAIR HOUSING INITIATIVES PROGRAM

On June 8, 1986, the Subcommittee on Housing and Urban Affairs held a hearing concerning proposed guidelines for fair housing testing. These guidelines were included as section 602 in S. 2507, the Housing Act of 1986, which was reported out by the Banking Committee on May 21, 1986.

Representatives from HUD, the National Association of Realtors, the NAACP, and the Fair Housing Councils presented their views which provided the Senate with a valuable record it could consider before taking final action on the housing legislation.

Senator Proxmire (D.-Wis.), requested this hearing because of the unusual way the guidelines came into being and eventually found their way into the committee bill. The proposed guidelines for testing under the Private Initiatives Programs were developed by the National Association of Realtors and HUD in private negotiations over some weeks. Not once during that period, did HUD call in or consult with fair housing representatives.

Many phone calls were received from fair housing and civil rights groups who were outraged that secret negotiations could so quickly lead to proposed legislation.

Realtors lobbied hard to assure that the guidelines become law. If there is any disappointment in the guidelines to become a public law, it was because of its lack of clarity and its secret negotiations.

Due to the enormous calendar for floor action nearing the end of the 99th Congress, no further action was taken on S. 2507.

OVERSIGHT ON THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM IN THE CITY OF PHILADELPHIA

Evidence assembled by the Federal Department of Housing and Urban Development [HUD] pointed out an overall breakdown in the city of Philadelphia's oversight of its Community Development Block Grant [CDBG] Program and the continuing waste of hundreds of thousands, perhaps millions of dollars, of taxpayers' money.

As an emergency response, HUD resorted to the freeze in order to force the city into a top to bottom evaluation of current program activities.

On October 2, 1986, the Subcommittee on Housing and Urban Affairs held an oversight hearing in hope that the witnesses called to testify could provide some insight into the nature and extent of the problems that exist and how to solve them.

Meetings with city officials and HUD staff, studied recommendations from the Community Planning and Development [CPD] at HUD, and suggested language imposing conditions on the city's CDBG Program, and made some minor revisions. HUD is encouraged by the positive reaction of city officials to its recommendations and will work with the city to resolve matters in as expeditious a manner as possible.

Oversight Activities Originating in the Subcommittee on International Finance and Monetary Policy

SEMICONDUCTOR TRADE AND JAPANESE TARGETING

The Subcommittee on International Finance and Monetary Policy held a hearing on July 30, 1985, to review allegations that the business decline in the United States market was due in large part to unfair Japanese trade practices, both in terms of closed access to the Japanese domestic market for United States producers and in terms of unfair marketing practices by Japanese companies. Substantial evidence was presented to substantiate these claims, and a strong record was established.

Subsequently, the Commerce Department announced on December 6, 1985, that it was self-initiating an anti-dumping investigation on 256K Dynamic Random Access Memory Components [DRAM's] from Japan. The DRAM's situation had been discussed in detail at the hearing.

EXCHANGE RATE MISALIGNMENT

The Subcommittee on International Finance and Monetary Policy conducted a hearing on October 23, 1985, on the exchange value of the dollar, the causes of its high value, the consequences for U.S. trade, and proposals for addressing the identified problems. The United States is experiencing record trade deficits, caused in large part by a high value of the dollar that acts as a tax on the Japanese domestic market for United States producers, and in terms of unfair marketing practices by Japanese companies in the United States market.

These hearings contributed to provisions of S. 2815, ordered reported by the Committee on August 14, 1986.

REVIEW OF THE INTERNATIONAL LENDING SUPERVISION ACT OF 1983

On June 25, 1983, the Subcommittee on International Finance and Monetary Policy held a hearing to examine the progress made since 1983 in implementing the International Lending Supervision Act [ILSA].

Public Law 98–181 was signed into law by the President on November 30, 1983, when banks were dangerously exposed to a group of less-developed countries [LDC's] debtors suddenly unable to pay their debts. This legislation was intended to ensure that the banks did not get a free ride and would be more likely to make sensible LDC lending decisions.

The act attempted to provide bank safety and soundness through a strengthened country-by-country risk-evaluation process, increased bank capital, enhanced disclosure of LDC lending, and special reserves for international debt already gone bad. To some extent, it has been successful. It is impossible, however, to expect this legislation to cope with the situation that faces us today. Mexico exemplifies the current crisis. Its debt problems have grown worse since the enactment of the ILSA, which means the risks for the U.S. banks are even greater than they were then. While further improvements in regulation of international bank lending may be appropriate, the committee feels that what is needed is a comprehensive approach to the overall debt crisis.

On August 14, 1986, the Committee ordered reported S. 2815, legislation that included provisions addressing the continuing international debt situation. No further action was taken on the bill due to press of other Senate activity.

Oversight Activities Originating in the Subcommittee on Financial Institutions and Consumer Affairs

ADJUSTABLE RATE MORTGAGES

On April 19, 1985, a joint hearing of the Subcommittee on Housing and Urban Affairs and the Subcommittee on Financial Institutions and Consumer Affairs, was held for the purpose of examining the role of adjustable rate mortgages in the housing market.

There is no legislation now pending, however, proposals on that subject have a way of arising quickly. It is appropriate that the committee take this opportunity to assure itself that it has adequately aired the issues surrounding adjustable rate mortgages [ARM's]. There can be no doubt that the ability of home lenders to offer ARM's has been and will continue to be an absolutely vital element in permitting the industry to better match the terms of its assets and liabilities.

The availability of ARM's has permitted many home buyers to qualify for home loans, when they would have been shut out of the market, when only conventional instruments were available. But the development of ARM's has not been without problems. Loans offered at initial rates far below market rates often stunned borrowers not only with payment shock when the initial favorable rates expire but also with the unhappy realization that in some cases they had paid on a loan for 1 year, only to discover that the outstanding principal is larger than what they had begun.

The making of such teaser loans is not only a classic example of misleading the consumers but also presents the industry with the potential for high default rates in future years.

Fortunately, there appears to have been some progress in eliminating what appears to be a gross abuse in the marketplace. Regulatory agencies and private trade associations conducted a consumer education campaign culminating in the recent consumer handbook, for which they are to be complimented.

BROKERED DEPOSITS

On June 5, 1985, the Subcommittee on Financial Institutions and Consumer Affairs held a hearing on the issue of brokered deposits.

The issue was originally brought up when the Federal Deposit Insurance Corporation [FDIC] and the Federal Home Loan Bank Board [FHLBB] attempted to cut off deposit insurance for brokered deposits claiming that brokered moneys were the root of certain thrift failures.

For the past 2 or 3 years fully insured brokered deposits have been utilized as a major funding source for credit unions, commercial banks, and savings and loan associations. These institutions tend to pay the highest interest rates.

During the 1982–84 period, 69 of the FDIC-insured banks that failed, held over $1 billion in insured brokered deposits. In two instances, the brokered funds represented more than 75 percent of the closed bank's deposits. The use of brokered funds by these institutions cost the FDIC hundreds of millions of dollars in additional losses.

In 1984, the Senate enacted an omnious banking bill (S. 2851) which included a provision affecting brokered deposits but was never acted upon by the House.

Clearly legislative action must be taken to address this crisis and in March 1985, Senators Mattingly and D'Amato, introduced S. 716 and S. 791 to provide for limitations on brokered deposits.

Due to the packed legislative calendar, no further action was taken at the end of the 99th Congress.

MOBILE HOME USURY PREEMPTIONS

On November 6, 1985, the Subcommittee on Financial Institutions and Consumer Affairs held a hearing on legislative proposals to modify the Federal mobile home usury preemptions contained in section 501 of the Depository Institutions Deregulation and Monetary Control Act of 1980.

The most controversial component of the proposal is a request for relief from a statute which now exists, and under which there are lawsuits pending.

Section 501 preempts State usury ceilings for the financing of mobile homes if the terms and conditions relating to the mobile home loan comply with the consumer protection provisions specified in regulations prescribed by the Federal Home Loan Bank Board.

One of the terms and conditions of the preemption provided by the statute and regulations was that mobile home owners be provided with a 30-day notice of their right to cure a default before the institution of foreclosure proceedings. Recent court decisions reflect a difference in the interpretation of a creditor's obligation to a mobile home buyer under the notice requirements. The Eleventh Circuit Court of Appeals addressed this issue but its opinions have not entirely resolved the vagaries of the notice requirement. To resolve the uncertainties created by the decisions of the Eleventh Circuit Court of Appeals which may effect subsequent judicial interpretations of the act, creditors that may be subject to millions of dollars in punitive damages for violating State usury laws have advocated a legislation solution.

Due to a packed legislative calendar no further action was taken by the 99th Congress.

CONSUMER BENEFITS ASSOCIATED WITH THE CHANGING FINANCIAL SERVICES ENVIRONMENT

At the end of the 98th Congress the Senate passed S. 2851, the Financial Services Competitive Equity Act of 1984, which the Banking Committee held over 50 days of hearings concerning the changes taking place in the delivery of financial services. Those

hearings examined those changes from the providers' point of view and focused on what those businesses thought the legal framework would look like in response to the changes.

On May 7, 1986, the Subcommittee on Financial Institutions and Consumer Affairs held an oversight hearing on what benefits will flow to the consumer should Congress modernize the legal framework of the financial world and does the consumer really want and demand one-stop financial services?

Some opinions point out that the majority of Americans want to consolidate their financial services. They want to be able to buy such services as insurance, securities, and residential real estate brokerage where they bank.

This evidence is based upon an independent research from the Survey of Consumer Finance. This is a large-scale survey of a national sample of 5,000 households providing a comprehensive look at how American families use financial services and their wants and needs.

Other thoughts are about the safety and soundness of the financial markets as well as the protection of the individual investor. Competition in the financial marketplace is healthy and such competition need not occur at the expense of investor protection or on the soundness of our financial markets. The current legal structure, with some minor modifications, has served consumers fairly well over the last 50 years.

Permitting commercial banks to engage in underwriting activities would benefit a handful of commercial banks, and not consumers, and potentially sacrifice a safe and sound financial system.

Therefore, they should concern themselves with offering a variety of investment opportunities or financial services to consumers only after they have mastered the extension of credit.

The consumer is already confronted with a myriad of financial products; in fact, more than they know how to employ effectively. Efforts should be on better service and not just the provision of more services.

Discussions between members of the Committee and the witnesses on the issues mentioned are sure to arise during the 100th Congress.

Oversight Activities Originating in the Subcommittee on Securities

IMPACT OF CORPORATE TAKEOVERS

On April 3, 4; June 6, and 12, 1985, the Subcommittee on Securities held hearings on the issue of corporate takeovers. In 1984, there were approximatley $135 billion in merger and acquisition activities. Of the 100 largest merger and acquisition transactions reported through the years end, over 65 occurred between 1981 and 1984 and less than 11 occurred prior to 1979.

These billions of dollars in mergers raise some immediate questions as to whether these mergers are in the best interest of the bidder and the target shareholders, the bidder and the target employees and the companies.

Senators D'Amato, Cranston, Metzenbaum, Domenici, and Specter introduced legislation for consideration in an attempt to amend the Williams Act and eliminate the loopholes exploited by tender offer practioners. Since that time, the SEC has promulgated a rule that embodies one of the major provisions—a prohibition against discriminatory self- or counter-tender offers. The proposed legislation modifies the act to ensure that it continues to protect investers and the public interest without placing undue impediments that thwart honest and lawfully conducted takeover transactions. Legitimate corporate takeover activity will not suffer by the enactment of this legislation.

Due to the enormous calendar for floor action nearing the end of the 99th Congress, no further action was taken on the bills.